

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Roscommon County Road Commission</b>	County <b>Roscommon</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>3/24/05</b>	Date Accountant Report Submitted to State: <b>6/3/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson &amp; Decker, P.C.</b>			
Street Address <b>P.O. Box 746</b>		City <b>Roscommon</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>48653</b>	
Digitally signed by James M. Anderson, CPA DN: cn=James M. Anderson, CPA, c=US o=Anderson & Decker, PC, email=jma@m33access.com Date: 2005.06.03 08:34:07 -04'00'		Date <b>6/3/05</b>	

ROSCOMMON COUNTY ROAD COMMISSION  
FINANCIAL REPORT  
DECEMBER 31, 2004

ROSCOMMON COUNTY  
BOARD OF COUNTY ROAD COMMISSIONERS

Larry V. Paxton  
Commissioner

Michael D. VanWormer  
Commissioner

George E. Pappas  
Commissioner

Gloria J. Burns  
Manager/Clerk

# ROSCOMMON COUNTY ROAD COMMISSION

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# Anderson & Decker, P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

245 Lake Street • P.O. Box 746 • Roscommon, MI 48653  
(989) 275-8831

### INDEPENDENT AUDITORS' REPORT

March 24, 2005

Board of County Road Commissioners  
Roscommon County Road Commission  
Prudenville, MI 48651

We have audited the accompanying basic financial statements of the Roscommon County Road Commission of the County of Roscommon, Michigan as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

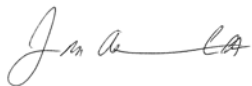
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Roscommon County Road Commission as of December 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also a report dated March 24, 2005, on our consideration of the Roscommon County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Roscommon County Road Commission. The information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.



ANDERSON & DECKER, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**ROSCOMMON COUNTY ROAD COMMISSION  
MANAGEMENTS'S DISCUSSION & ANALYSIS  
DECEMBER 31,2004**

THE ROAD COMMISSION AS A WHOLE

The Roscommon County Road Commission is proud to report that it has been able to construct and maintain roads as planned while remaining financially sound.

PRIMARY ROAD PROJECTS

Road projects on the Primary Road System were completed using a combination of Federal STP and D funds. Roads resurfaced include Old 27 from County Road 304 to County Road 305 and County Road 304 from Old 27 to Loxley Road. F-18 was fully reconstructed from Matthews Road to the east county line. Two guardrail replacement projects along County Road 602 were completed using Hazard Elimination Funds. Road Commission funding accounted for 20% of the \$540,407.07 total.

LOCAL ROAD PROJECTS

A variety of roads were improved on the Local Road System using road commission funds with assistance from Townships. The Townships provided \$508,209.52 (67.4%) toward the completion of projects totaling \$753,330.42. Improvements ranged anywhere from drainage corrections to resurfacing blacktop roads.

MI DEPT. OF TRANSPORTATION (MDOT)

The road commission has a \$1,096,400.00 contract with the MDOT to provide maintenance on State Highways. MDOT also requests that we perform some non-maintenance work. This arrangement works well for both parties and the public. MDOT gets the work done, the public enjoys roads safe and convenient to travel, and we are able to offer full-time employment to several individuals year around.

CAPITAL ASSETS

The road commission has been able to keep its fleet up-to-date and in good working condition. A total of \$655,800.33 was spent on the purchase of new or used equipment, engineering supplies, and office equipment.

2005 FORECAST

The RCRC fully expects to retain its current funding level. We are now receiving monies designated as Urban from the MI Transportation Funds, generating approximately \$460,000 in revenues. Unfortunately, Primary Roads within the Urban Boundary no longer qualify for the federal funding, which we have historically used to reconstruct or resurface the roads. Higher fuel prices and health care premiums continue to challenge our budget, however with careful planning we can look forward to maintaining Roscommon County roads to the level motorists have enjoyed in the past.

ROSCOMMON COUNTY ROAD COMMISSION  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2004

**ASSETS**

Cash	\$ 538,560
Investments	903,783
Accounts receivable	
Sundry	720
Due from other governmental units	923,318
Inventories	479,291
Capital Assets (Net of Accumulated Depreciation)	<u>20,350,044</u>
Total Assets	<u>23,195,716</u>

**LIABILITIES**

Current Liabilities	
Accounts payable	81,101
Accrued liabilities	15,901
Due from other governmental units	7,453
Escrow	25,809
Deferred revenue	146,881
Advances from MDOT	342,878
Bonds Payable	95,000
Non Current Liabilities	
Bonds Payable	3,720,000
Vested Employee Benefits Payable	<u>255,034</u>
Total Liabilities	<u>4,690,057</u>

**NET ASSETS**

Investment in Capital Fixed Assets	
Net of Related Debt	16,535,044
Restricted for County Roads	<u>1,970,615</u>
Total Net Assets	<u>\$ 18,505,659</u>

See accompanying notes to the basic financial statements.



ROSCOMMON COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004

Program Expenses	
Primary Road Maintenance	\$ 1,024,621
Local Road Maintenance	1,198,738
State Trunkline Maintenance	1,378,439
Net Equipment Expense	41,667
Net Administrative Expense	276,743
Infrastructure Depreciation	1,017,765
Compensated Absences	21,768
Interest Expense	<u>179,185</u>
Total Program Expenses	<u>5,138,926</u>
Program Revenue	
Federal Grants	430,700
State Grants	3,749,666
Contributions from Local Units	545,440
Charges for Services	1,288,505
Investment Earnings	<u>45,479</u>
Total Program Revenue	<u>6,059,790</u>
Net Program Revenue	<u>920,864</u>
General Revenue	
Gain (Loss) on Equipment Disposal	<u>75,800</u>
Total General Revenues	<u>75,800</u>
Change in Net Assets	996,664
Net Assets	
Beginning of Year	<u>17,508,995</u>
End of Year	<u><u>\$ 18,505,659</u></u>

See accompanying notes to the basic financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
BALANCE SHEET  
DECEMBER 31, 2004

	Governmental <u>Fund Type</u> General <u>Operating</u>
ASSETS	
Imprest cash	\$ 350
Cash demand and time deposits	538,210
Investments	903,783
Accounts receivable:	
Sundry	720
Due from other governmental units	923,318
Inventories	<u>479,291</u>
Total Assets	<u><u>\$ 2,845,672</u></u>
LIABILITIES AND FUND EQUITY	
Accounts payable	\$ 81,101
Accrued liabilities	15,901
Due to other governmental units	7,453
Escrow	25,809
Deferred revenue	146,881
Advances from governmental units	<u>342,878</u>
Total Liabilities	<u>620,023</u>
Fund Equity:	
Fund Balance:	
Reserve for Post-Retirement Benefits	300,000
Undesignated	<u>1,925,649</u>
Total Fund Equity	<u>2,225,649</u>
Total Liabilities and Fund Equity	<u><u>\$ 2,845,672</u></u>

See accompanying notes to the basic financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO  
THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2004

Total governmental fund balance	\$ 2,225,649
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Amounts reported for governmental activities in  
the statement of new assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	20,350,044
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Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(4,070,034)</u>
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Net assets of governmental activities	<u>\$ 18,505,659</u>
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See accompanying notes to the basic financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
DECEMBER 31, 2004

	<u>Operating Fund</u>
Revenues	
Federal Grants	\$ 430,700
State Grants	3,749,666
Contributions From Local Units	508,290
Changes for Services	1,288,505
Interest and Rents	15,651
Other Revenue	<u>142,778</u>
Total Revenues	<u>6,135,590</u>
Expenditures	
Public Works	5,591,502
Net Capital Outlay	(31,345)
Debt Service	<u>274,185</u>
Total Expenditures	<u>5,834,342</u>
Excess of Revenues Over (Under) Expenditures	301,248
Fund Balance-January 1, 2004	<u>1,924,401</u>
Fund Balance-December 31, 2004	<u><u>\$ 2,225,649</u></u>

See accompanying notes to the basic financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004

Net Change in fund balance-total governmental funds	\$ 301,248
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Amounts reported for governmental activities  
in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.	622,184
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Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the statement of net assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	95,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense).	(21,768)
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Change in net assets of governmental activities.	\$ <u>996,664</u>
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See accompanying notes to the basic financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
PENSION TRUST FUND  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004

ASSETS

Cash and Investments	<u>\$ 3,242,573</u>
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Total Assets	<u><u>\$ 3,242,573</u></u>
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FUND EQUITY

Reserve for Retirement Benefits	<u>\$ 3,242,573</u>
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Total Fund Equity	<u><u>\$ 3,242,573</u></u>
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See accompanying notes to the basic financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
PENSION TRUST FUND  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2004

Additions:

Employer Contributions	\$ 159,908
Investment income	<u>296,627</u>
Total Additions	<u>456,535</u>

Deductions:

Administrative	8,942
Cash retirements	<u>251,249</u>
Total Deductions	<u>260,191</u>

Change in Net Assets: 196,344

Net Assets - October 1, 2003 3,046,229

Net Assets - September 30, 2004 \$ 3,242,573

See accompanying notes to the basic financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Roscommon County Road Commission conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

DESCRIPTION OF ROAD COMMISSION OPERATIONS - The Roscommon County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Roscommon, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, reimbursements from the Department of State Highways for work performed by the County on State trunkline and contributions from other local units of government for work performed by the Road Commission work force.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to eleven (11) Townships in Roscommon County and maintains 859 miles of state, local and primary roads.

FINANCIAL REPORTING ENTITY - The Road Commission is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this State requirement.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Roscommon County Road Commission, a discretely presented component unit of Roscommon County, and include the Road Commission Operating Fund, Pension Trust Fund, General Fixed Asset Account Group, and General Long-Term Debt Account Group.

BASIS OF PRESENTATION-GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all the Roscommon County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.



ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION—FUND FINANCIAL STATEMENTS

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING—GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year of which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: charges to customer or applicants for goods or services or privileges provided; Michigan transportation funds; and State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING—FUND FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law.

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less within acquired. Investments are stated at fair value.

INVENTORY - Inventories consisting of equipment parts and supplies of \$220,568 and road materials of \$258,723, are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Roscommon County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Roscommon County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets. The Road Commission has retroactively capitalized the major infrastructure assets as of December 31, 2004, as permitted by GASB 34.

ADVANCES FROM THE STATE OF MICHIGAN - The State of Michigan advances funds on a State maintenance agreement it has with the Roscommon County Road Commission for specified maintenance which the Road Commission will perform during the year and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCRUED VACATION AND SICK - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts.

Employees are compensated 100% of their vested vacation leave and 50% to 100% (depending in employees classification) of their vested sick leave upon termination for any reason.

EQUIPMENT RENTALS - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

DEPRECIATION - Depreciation is computed on the sum-of-the-years-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure-Roads	8 to 30 years
Infrastructure-Bridges	12 to 50 years

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in operating fund statement of net assets.

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(CONTINUED)

NOTE B - CASH AND INVESTMENTS

The balance sheet accounts and types of cash items are presented below:

<u>Balance Sheet Accounts</u>	<u>Amount</u>	<u>Cash Items</u>	<u>Amount</u>
Imprest Cash	\$ 350	Imprest Cash	\$ 350
Cash demand and time deposits	538,210	Checking	500
Investments	4,146,356	Savings	46,745
		Certificate of deposit	490,965
		Investments	4,146,356
	<u>\$ 4,684,916</u>		<u>\$ 4,684,916</u>

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for Roscommon County Road Commission's cash deposits are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 246,520	\$ 285,240
Uninsured and Uncollateralized	291,690	291,190
Total Deposits	<u>\$ 538,210</u>	<u>\$ 576,430</u>

DEPOSITS - At year-end the carrying amount of the County Road Commissions deposits were \$538,210 and the bank balance was \$576,430. According to the Federal Deposit Insurance Corporation, approximately 49% of the total bank balance was covered by federal depository insurance. Michigan statutes do not allow collateralization of governmental deposits.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(CONTINUED)

NOTE B - CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS - Act 217, PA 1982, authorizes the County Treasurer to deposit and invest for the Road Commission in the following:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depository of surplus money belonging to the State under section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146)
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any one time
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

The Road Commission's investments totaling \$4,146,356 are made up of Bank One Trust Funds held by the County Treasurer of \$82,403, Michigan National Bank Investment Trust Funds of \$821,380, and Pension Trust Funds of \$3,242,573. These are considered investment pools and are not required to be categorized as to investment risk.

Retirement (Pension) contributions are deposited with the Principal Financial Group which administers an investments portfolio on behalf of the Road Commission and the participants. As of September 30, 2004, the carrying amount (cost) of these investments is \$3,242,573. The Pension Fund includes uninsured and registered investments for which the securities are held by the Principal Financial Group, but not in the Road Commission's name.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(CONTINUED)

NOTE C - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance 1/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/04</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 2,178,612	\$ 197,757	\$ -0-	\$ 2,376,369
Subtotal	<u>2,178,612</u>	<u>197,757</u>	<u>-0-</u>	<u>2,376,369</u>
Capital Assets Being Depreciated:				
Buildings	6,278,587	-0-	2,246	6,276,341
Road Equipment	5,016,292	650,269	212,170	5,454,391
Shop Equipment	249,015	-0-	5,574	243,441
Office Equipment	139,695	4,602	2,950	141,347
Engineers Equipment	70,533	930	-0-	71,463
Yard & Storage Equipment	338,285	-0-	-0-	338,285
Infrastructure-Bridges	901,728	-0-	-0-	901,728
Infrastructure-Roads	<u>19,282,513</u>	<u>1,473,537</u>	<u>822,704</u>	<u>19,933,346</u>
Total	<u>32,276,648</u>	<u>2,129,338</u>	<u>1,045,644</u>	<u>33,360,342</u>
Less Accumulated Depreciation:				
Buildings	802,394	161,477	2,246	961,625
Road Equipment	3,964,158	470,740	212,170	4,222,728
Shop Equipment	82,309	21,604	5,574	98,339
Office Equipment	64,762	17,838	2,950	79,650
Engineers Equipment	38,178	6,819	-0-	44,997
Yard & Storage Equipment	154,758	8,668	-0-	163,426
Infrastructure-Bridges	732,777	16,059	-0-	748,836
Infrastructure-Roads	<u>8,888,064</u>	<u>1,001,706</u>	<u>822,704</u>	<u>9,067,066</u>
Total	<u>14,727,400</u>	<u>1,704,911</u>	<u>1,045,644</u>	<u>15,386,667</u>
Net Capital Assets Being Depreciated	<u>17,549,248</u>	<u>424,427</u>	<u>-0-</u>	<u>17,973,675</u>
Total Net Capital Assets	<u>\$19,727,860</u>	<u>\$ 622,184</u>	<u>\$ -0-</u>	<u>\$20,350,044</u>

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(CONTINUED)

NOTE D - PENSION PLAN

The Roscommon County Road Commission Money Purchase Plan is a single employer plan established by the Roscommon Board of County Road Commission in 1985 to provide retirement and pension benefits. The trustees of the plan are the Board of County Road Commissioners. An administrative service agreement has been entered into with the Principal Financial Group to provide a number of the administrative functions.

The Plan covers substantially all full-time employees of the Road Commission, and had a membership of 55 participants at September 30, 2004. Act No. 103 of the Public Act of 1960, as amended, governs the benefits and conditions of the Pension Plan. The Road Commission contributes 8 percent of all employees base compensation to the plan monthly. All benefits vest immediately and are credited to each participants account. For the year ended September 30, 2004, the Road Commission's payroll subject to retirement contribution amounted to approximately \$1,784,943 with contributions of \$158,363.

The information required by the Governmental Accounting Standards concerning "accounting policies and plan assets matters" is not provided in the annual actuarial valuation report issued by the Principal Financial Group, which handles and invest all of the pension assets.

NOTE E - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(CONTINUED)

NOTE F - LONG TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

CHANGES IN LONG TERM DEBT

Description	Balance 1/1/04	Additions	Reductions	Balance 12/31/04
General Obligation	\$ 3,910,000	\$ -0-	\$ 95,000	\$ 3,815,000
Bonds Payable	233,266 (1)	21,768	-0-	255,034
Compensated Absences	<u>\$ 4,143,266</u>	<u>\$ 21,768</u>	<u>\$ 95,000</u>	<u>\$ 4,070,034</u>

(1) The change in compensated absences is shown as a net addition.

The general obligation bonds payable is made up of Michigan Transportation Fund Bonds issued May 23, 2004 pursuant to the provisions of Act 51, for the purpose of defraying part of the cost of acquiring, constructing, furnishing and equipping a new County Road Commission central garage complex and satellite facility. The bonds were issued in denominations of \$5,000 with a net rate of 4.895%. The bonds will mature in varying increments over a 25 year period.

Annual Debt Service Requirements:

Year	Amount
2005	\$ 270,385
2006	271,485
2007	272,385
2008	273,085
2009	273,585
2010	268,985
2011	274,060
2012	273,705
2013	273,073
2014-2027	<u>3,864,400</u>
Total Payments	6,315,148
Less Interest & Fees	<u>(2,500,148)</u>
Net Balance Due	<u>\$ 3,815,000</u>

ACCRUED VACATION AND SICK - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights, which has been accrued on the financial statements amounts to approximately \$101,501 for sick and \$153,533 vacation at December 31, 2004.



ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(CONTINUED)

NOTE G - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2004 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road:			
Heavy Maintenance	\$ 818,765	\$ 880,814	\$ (62,049)
Local Road:			
Heavy Maintenance	\$ 786,782	\$ 790,480	\$ (3,698)
Maintenance	\$ 1,125,802	\$ 1,198,738	\$ (72,936)
Equipment Expense - Net	\$ -0-	\$ 41,667	\$ (41,667)
Administrative Expense - Net	\$ 255,864	\$ 276,743	\$ (20,879)
Capital Outlay - Net	\$ (183,521)	\$ (31,345)	\$ (152,176)

The Road Commission does not use encumbrances for budgetary purposes. During the year ended December 31, 2004, the Road Commissioners made one amendment to the General Operating Fund Budget.

NOTE H - RISK MANAGEMENT

Roscommon County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Roscommon Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

During 2004 and the previous two years, there were no settlements which exceeded the respective insurance coverage. In addition, there has been no reduction in insurance coverage from the prior year.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(CONTINUED)

NOTE I - FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation that Road Commissioners report total federal financial assistance for Highway Research, Planning and construction pertaining to their County. However, only the federal financial assistance applicable to negotiated account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by the Michigan Department of Transportation.

The federal revenue of \$430,700 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors under non-negotiated contracts between the Road Commission and the Michigan Department of Transportation.

NOTE J - POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note D, the Road Commission provides post retirement health care benefits to all employees who retire from the Road Commission on or after obtaining age 55 with 30 or more years of service or age 62 with 20 years of service. The Road Commission also provides employer paid supplemental health insurance for qualifying employees between the age of 65 and 80. The costs of retirees' health care benefits are recognized as expenditures as claims are paid. For the twelve months ended December 31, 2004, these costs totaled \$41,031.

## REQUIRED SUPPLEMENTAL INFORMATION

ROSCOMMON COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -  
BUDGETARY COMPARISON SCHEDULE  
TWELVE MONTHS ENDED DECEMBER 31, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Michigan Transportation Funds:				
Primary road	\$ 1,910,000	\$ 2,063,800	\$ 2,162,435	\$ 98,635
Local road	1,450,000	1,536,500	1,569,298	32,798
Snow removal	-0-	-0-	7,525	7,525
Engineering	<u>-0-</u>	<u>-0-</u>	<u>4,730</u>	<u>4,730</u>
Subtotal	<u>3,360,000</u>	<u>3,600,300</u>	<u>3,743,988</u>	<u>143,688</u>
Federal Aid:				
Federal aid secondary	280,000	301,374	427,703	126,329
Category-D	228,400	220,515	2,997	(217,518)
State Forest Road Funds	140,000	-0-	-0-	-0-
Rural Primary Funds	-0-	-0-	5,678	5,678
State Trunkline Maintenance / Non-Maintenance	880,000	1,150,150	1,288,505	138,355
County Raised Funds:				
Township contributions and other contributions	147,000	508,290	545,440	37,150
Other Revenue:				
Gain (Loss) on Sale of Equipment	-0-	-0-	75,800	75,800
Interest, Salvage Sales, Permits and Refunds	<u>25,000</u>	<u>36,000</u>	<u>45,479</u>	<u>9,479</u>
Total Revenue	<u>\$ 5,060,400</u>	<u>\$ 5,816,629</u>	<u>\$ 6,135,590</u>	<u>\$ 318,961</u>

ROSCOMMON COUNTY ROAD COMMISSION  
STATEMENT OF EXPENDITURES -  
BUDGETARY COMPARISON SCHEDULE  
TWELVE MONTHS DECEMBER 31, 2004

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 981,805	\$ 818,765	\$ 880,814	\$ (62,049)
Maintenance	1,168,083	1,138,595	1,024,621	113,974
Local Road:				
Heavy maintenance	417,930	786,782	790,480	(3,698)
Maintenance	<u>1,101,213</u>	<u>1,125,802</u>	<u>1,198,738</u>	<u>(72,936)</u>
Subtotal	<u>3,669,031</u>	<u>3,869,944</u>	<u>3,894,653</u>	<u>(24,709)</u>
State Trunkline Maintenance/ Non-Maintenance	<u>1,167,552</u>	<u>1,599,342</u>	<u>1,378,439</u>	<u>220,903</u>
Equipment Expense - Net:				
Direct			942,686	
Indirect			580,040	
Operating			162,300	
Less:				
Equipment Rental			<u>(1,643,359)</u>	
Subtotal	(1) <u>-0-</u>	(1) <u>-0-</u>	<u>41,667</u>	<u>(41,667)</u>
Administrative Expense - Net:				
Administrative expense			398,665	
Less:				
Overhead - State trunkline			(118,959)	
Purchase discounts and Handling Charges			<u>(2,963)</u>	
Subtotal	(1) <u>238,817</u>	(1) <u>255,864</u>	<u>276,743</u>	<u>(20,879)</u>
Capital Outlay - Net:				
Capital Outlay			655,801	
Less:				
Depreciation			<u>(687,146)</u>	
Subtotal	(1) <u>(290,000)</u>	(1) <u>(183,521)</u>	<u>(31,345)</u>	<u>(152,176)</u>
Long-Term Debt Payments	<u>95,000</u>	<u>95,000</u>	<u>95,000</u>	<u>-0-</u>
Interest Expense	<u>180,000</u>	<u>180,000</u>	<u>179,185</u>	<u>815</u>
Total Expenditures	<u>\$ 5,060,400</u>	<u>\$ 5,816,629</u>	<u>\$ 5,834,342</u>	<u>\$ (17,713)</u>
(1) Budgeted in total				

## SUPPLEMENTAL SCHEDULES

ROSCOMMON COUNTY ROAD COMMISSION  
ANALYSIS OF CHANGES OF FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Total Revenues and other Financing Sources	\$ 3,897,702	\$ 2,129,728	\$ 108,160	\$ 6,135,590
Total Expenditures	<u>3,450,822</u>	<u>2,140,680</u>	<u>242,840</u>	<u>5,834,342</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures before Optional Transfers	446,880	(10,952)	(134,680)	301,248
Optional Transfers	<u>(50,000)</u>	<u>50,000</u>	<u>-0-</u>	<u>-0-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures After Transfers	396,880	39,048	(134,680)	301,248
Fund Balance - January 1	<u>785,514</u>	<u>615,627</u>	<u>523,260</u>	<u>1,924,401</u>
Fund Balance - December 31	<u><u>\$ 1,182,394</u></u>	<u><u>\$ 654,675</u></u>	<u><u>\$ 388,580</u></u>	<u><u>\$ 2,225,649</u></u>

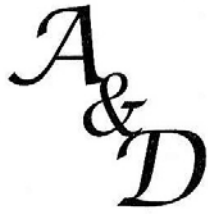
ROSCOMMON COUNTY ROAD COMMISSION  
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Motor Vehicle Highway Funds:				
Primary road	\$ 2,162,435	\$ -0-	\$ -0-	\$ 2,162,435
Local road	-0-	1,569,298	-0-	1,569,298
Snow removal	-0-	7,525	-0-	7,525
Engineering	<u>2,743</u>	<u>1,987</u>	<u>-0-</u>	<u>4,730</u>
Subtotal	<u>2,165,178</u>	<u>1,578,810</u>	<u>-0-</u>	<u>3,743,988</u>
Federal Aid:				
Federal Aid Secondary	427,703	-0-	-0-	427,703
Category - D	2,997	-0-	-0-	2,997
Rural Primary Funds	5,678	-0-	-0-	5,678
State Trunkline Maintenance / Non-Maintenance	1,288,505	-0-	-0-	1,288,505
County Raised Funds:				
Township contributions and other contributions	-0-	545,440	-0-	545,440
Other Revenue:				
Gain (Loss) on Sale of Equipment	-0-	-0-	75,800	75,800
Interest, Salvage Sales, Permits and Refunds	<u>7,641</u>	<u>5,478</u>	<u>32,360</u>	<u>45,479</u>
Total Revenue	<u>\$ 3,897,702</u>	<u>\$ 2,129,728</u>	<u>\$ 108,160</u>	<u>\$ 6,135,590</u>



ROSCOMMON COUNTY ROAD COMMISSION  
ANALYSIS OF EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Primary Road:				
Heavy maintenance	\$ 880,814	\$ -0-	\$ -0-	\$ 880,814
Maintenance	1,024,621	-0-	-0-	1,024,621
Local Road:				
Heavy maintenance	-0-	790,480	-0-	790,480
Maintenance	-0-	1,198,738	-0-	1,198,738
Subtotal	1,905,435	1,989,218	-0-	3,894,653
State Trunkline Maintenance / Non-Maintenance	1,378,439	-0-	-0-	1,378,439
Equipment Expense - Net:				
Direct	570,698	371,988	-0-	942,686
Indirect	351,153	229,887	-0-	580,040
Operating	98,256	64,044	-0-	162,300
Less:				
Equipment Rental	(994,882)	(648,477)	-0-	(1,643,359)
Subtotal	25,225	16,442	-0-	41,667
Administrative Expense - Net:				
Administrative expense	204,161	194,504	-0-	398,665
Less:				
Overhead - State trunkline	(60,920)	(58,039)	-0-	(118,959)
Purchase discounts and Handling charges	(1,518)	(1,445)	-0-	(2,963)
Subtotal	141,723	135,020	-0-	276,743
Capital Outlay - Net:				
Capital Outlay	-0-	-0-	655,801	655,801
Less:				
Depreciation	-0-	-0-	(687,146)	(687,146)
Subtotal	-0-	-0-	(31,345)	(31,345)
Long-Term Debt Payments	-0-	-0-	95,000	95,000
Interest Expense	-0-	-0-	179,185	179,185
Total Expenditures	<u>\$ 3,450,822</u>	<u>\$ 2,140,680</u>	<u>\$ 242,840</u>	<u>\$ 5,834,342</u>



# Anderson & Decker, P.C.

## **CERTIFIED PUBLIC ACCOUNTANTS**

245 Lake Street • P.O. Box 746 • Roscommon, MI 48653  
(989) 275-8831

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

March 24, 2005

Board of County Road Commissioners  
Roscommon County Road Commission  
Roscommon, MI 48653

We have audited the basic financial statements of the Roscommon County Road Commission as of and for the year ended December 31, 2004 and have issued our report thereon dated March 24, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Roscommon County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Roscommon County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, and the Michigan Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.



ANDERSON & DECKER, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS